

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
CHRISTINA L. SEALE**



DOCKET NO. 2006-107-W/S

**APPLICATION OF UNITED UTILITY COMPANIES,
INCORPORATED FOR ADJUSTMENT OF RATES
AND CHARGES AND MODIFICATION TO
CERTAIN TERMS AND CONDITIONS FOR THE
PROVISION OF WATER AND SEWER SERVICE**

TESTIMONY OF CHRISTINA L. SEALE

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-107-W/S

IN RE: UNITED UTILITY COMPANIES, INC.

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Christina L. Seale. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as an Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a Bachelor of Science in Accounting with a minor in Computer Systems and Applications from Columbia College in 2000. From 2001 to 2004, I was employed by the South Carolina Office of the State Auditor. In that capacity, I performed agreed-upon procedures of various state agencies in South Carolina. I also performed audits of various state agencies for the annual Single Audit of the State's Schedule of Expenditures of Federal Funds. In January 2005, I began my employment with ORS.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING UNITED UTILITY COMPANIES, INC.?

1 A. The purpose of my testimony is to set forth my findings and recommendations
2 resulting from ORS's review of the application of United Utility Companies, Inc.
3 ("UUCI") in this docket.

4 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
5 **TESTIMONY.**

6 A. I have attached the Report of the Audit Department ("Audit Report") related to
7 UUCI's application for a rate increase, Docket No. 2006-107-W/S. The contents of
8 the Audit Report either were prepared by me or were prepared under my direction
9 and supervision in compliance with recognized accounting and regulatory procedures
10 for water and wastewater utility rate cases.

11 **Q. HAS UUCI PETITIONED THE SOUTH CAROLINA PUBLIC SERVICE**
12 **COMMISSION ("PSC") TO TRANSFER THE GEM LAKES**
13 **WASTEWATER SYSTEMS AND RELINQUISH ITS KEOWEE**
14 **TOWNHOMES SERVICE TERRITORY?**

15 A. Yes. Under Docket No. 2006-130-S, UUCI filed an application to transfer the
16 wastewater systems of Gem Lakes and under Docket No. 2006-122-S, UUCI filed an
17 application to relinquish service territory for Keowee Townhomes in Oconee County.

18 **Q. DOES ORS INCLUDE INFORMATION IN ITS DIRECT TESTIMONY FOR**
19 **GEM LAKES AND KEOWEE TOWNHOMES CUSTOMERS?**

20 A. Yes. We normalized test year operations to reflect the elimination of the Gem Lakes
21 and Keowee Townhomes subdivisions.

22 **Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.**

1 A. As outlined in the index of the Audit Report, pages 1-5 contain the analysis of
2 UUCI and its application. The remaining pages consist of exhibits, which show
3 various aspects of UUCI's operations and financial position. The majority of my
4 testimony will refer to Audit Exhibit CLS-1-Operating Experience, Rate Base and
5 Rates of Return – Combined Operations as shown on page 6 of the Audit Report.

6 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT CLS-1.**

7 A. Column (1) shows per book balances for UUCI as of September 30, 2005. I verified
8 these per book balances to the books and records of UUCI.
9 Column (2) shows accounting and pro forma adjustments designed to normalize
10 UUCI's per book operations.
11 Column (3) shows adjusted operations after accounting and pro forma adjustments.
12 Column (4) reflects the removal of the revenues, expenses and rate base amounts
13 associated with UUCI's transfer of Gem Lakes (Docket No. 2006-130-S) and the
14 relinquishment of its Keowee Townhomes service territory (Docket No.2006-122-S).
15 Column (5) shows the computation of UUCI's normalized test year after the transfer
16 of Gem Lakes and the relinquishment of its Keowee Townhomes service territory
17 prior to implementing the proposed increase.
18 Column (6) shows the adjustments for the requested rate increase and ORS's
19 adjustments associated with the additional revenues.
20 Column (7) shows the computation of UUCI's normalized test year after accounting
21 and pro forma adjustments, the removal of the revenues, expenses and rate base
22 amounts associated with the transfer of Gem Lakes and the relinquishment of its

1 Keowee Townhomes service territory, and the requested rate increase with associated
2 adjustments.

3 **Q. PLEASE ELABORATE ON THE CALCULATIONS IN AUDIT EXHIBIT**
4 **CLS-1 – OPERATING EXPERIENCE, RATE BASE AND RATES OF**
5 **RETURN – COMBINED OPERATIONS.**

6 A. Column (1) shows per books operating experience of UUCI, which reflect Total
7 Operating Revenues of \$902,941, Total Operating Expenses of \$892,017 and Net
8 Income for Return of \$11,988. Per book Total Rate Base amounted to \$1,815,262
9 and the resultant per book Return on Rate Base was 0.66%.

10 Column (2) shows accounting and pro forma adjustments designed to normalize
11 UUCI's per book operations. A description of each adjustment is contained in Audit
12 Exhibit CLS-4.

13 Column (3) is the sum of Columns (1) and (2) and reflects the normalized amounts or
14 amounts after accounting and pro forma adjustments. The accounting and pro forma
15 adjustments produced Total Operating Revenues of \$940,190, Total Operating
16 Expenses of \$839,369, Net Income for Return of \$103,343 and Total Rate Base of
17 \$2,112,201. A Return on Rate Base of 4.89% was computed using the above
18 amounts.

19 Column (4) reflects the adjustments associated with UUCI's transfer of Gem Lakes
20 and the relinquishment of its Keowee Townhomes service territory. Total Operating
21 Revenues were reduced by (\$152,007), Total Operating Expenses were reduced by
22 (\$143,156) and Total Rate Base was reduced by (\$384,362). These adjustments are

1 detailed in Audit Exhibit CLS-4.

2 Column (5) shows the computation of UUCI's normalized test year after the transfer
3 of Gem Lakes and the relinquishment of its Keowee Townhomes service territory.
4 These adjustments produced Total Operating Revenues of \$788,183, Total Operating
5 Expenses of \$696,213, Net Income for Return of \$94,265 and Total Rate Base of
6 \$1,727,839. A Return on Rate Base of 5.46% was computed using the above
7 amounts.

8 Column (6) reflects the proposed increase, as computed by ORS, and its related
9 effect on expenses. These adjustments are detailed in Audit Exhibit CLS-4.

10 Column (7) shows the per book operations, adjusted for accounting and pro forma
11 adjustments, the Gem Lakes and Keowee Townhomes adjustments, and the
12 requested increase. The Net Income for Return of \$270,971 was computed using
13 Total Operating Revenues of \$1,070,971 less Total Operating Expenses of \$806,375
14 and adding Customer Growth of \$6,375. Total Rate Base amounted to \$1,727,839
15 producing a Return on Rate Base of 15.68%.

16 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT CLS-4.**

17 A. The adjustments are as follows:

18 Adjustments 1-2 - The ORS Water/Wastewater Department proposes to adjust
19 revenues by \$6,823 using test year customer billings and the present rates for the test
20 year ended September 30, 2005. Details of these adjustments are shown in Exhibit
21 DMH-7 of ORS Water/Wastewater Program Specialist, Dawn Hipp.

22 Adjustment 3 - ORS proposes to adjust for uncollectible accounts associated with

1 the accounting and pro forma adjustments to service revenues. ORS applied an
2 uncollectible rate of 1.5% to the total service revenues of \$43,424 for water
3 operations and \$734,888 for sewer operations, and \$146,265 for Gem Lakes sewer
4 operations for total combined operations of \$924,577. ORS subtracted the per
5 book amounts from these amounts to get an adjustment of \$1,382 for water
6 operations, \$29,044 for sewer operations and \$30,426 for combined operations.
7 The ORS Water/Wastewater Department verified that 1.5% was a reasonable
8 percentage to calculate uncollectible accounts based on their examination of the
9 billing records.

10 Adjustment 4 - ORS and UUCI propose to adjust operators' salaries. ORS
11 annualized salaries using salaries as of May 2006 and the latest available salary
12 allocations as of September 30, 2005. ORS computed annualized salaries of
13 \$166,773 less per book salaries of \$164,508 for an adjustment of \$2,265. ORS did
14 not include the 4% cost of living increase proposed by UUCI, since supporting
15 documentation was not received in sufficient time to allow for its audit. Also, ORS
16 did not include overtime for part-time employees. UUCI annualized operators'
17 salaries as of December 31, 2005 and included a 4% cost of living increase and
18 overtime for part-time employees.

19 Adjustment 5 - ORS and UUCI propose to charge a portion of operators' salaries,
20 taxes and benefits to plant for time operators spent on capital projects. ORS applied
21 30.12% to the total annualized operators' salaries, taxes and benefits of \$205,329 for
22 total annualized maintenance expense charged to plant of (\$61,845), less the per

1 book amount of (\$59,723) for an adjustment of (\$2,122). ORS computed 30.12%
2 using per book operating expense charged to plant for the test year divided by actual
3 operators' test year salaries, taxes and benefits (\$59,723 / \$198,301). UUCI
4 computed 30.20% using per book operating expense charged to plant for the test year
5 divided by operators' annualized salaries, taxes and benefits.

6 Adjustment 6 - ORS and UUCI propose to adjust office salaries. ORS annualized
7 salaries using salaries as of May 2006 and the latest available salary allocations as
8 of September 30, 2005. ORS did not include the 4% cost of living increase
9 proposed by UUCI, since supporting documentation was not received in sufficient
10 time to allow for its audit. ORS computed office salaries of \$38,968 less the per
11 book amount of \$37,400 for an adjustment of \$1,568. Also, ORS did not include
12 overtime for part-time employees. UUCI annualized office salaries as of December
13 31, 2005 and included a cost of living increase and overtime for part-time
14 employees.

15 Adjustment 7 - ORS and UUCI propose to amortize rate case expenses over a
16 three-year period. ORS adjusted for actual current rate case expenses as of July 21,
17 2006 for \$84,928. This amount was amortized over three years resulting in test
18 year expenses of \$28,309 less the per book amount of \$35,000 for an adjustment of
19 (\$6,691). The current rate case expenses include UUCI's portion of the cost of the
20 Utilities, Inc. management audit approved by the PSC in Docket No. 2004-357-
21 W/S. Other expenses are for legal and consulting fees, postage, printing, and direct
22 time spent on the case by the corporate office staff. UUCI proposes to amortize

1 total estimated rate case expense of \$171,466 over three years for \$57,155. This
2 amount less per book amount of \$35,000 equals UUCI's adjustment of \$22,155.

3 Adjustment 8 - ORS and UUCI propose to annualize pension and other benefits
4 associated with the salary adjustment for operators and office employees. ORS did
5 not include pension and benefits for part-time employees, as UUCI does not pay
6 benefits to these employees. The total ORS computed pension and other benefits
7 was \$32,175 less the per book amount of \$32,339 resulting in an adjustment of
8 (\$164). ORS capitalized a portion of these costs for operators in expenses charged to
9 plant in ORS Adjustment 5 and capitalized salaries, taxes and benefits in ORS
10 Adjustment 20. UUCI computed an adjustment of \$1,050 using computed
11 annualized wages.

12 Adjustment 9 - ORS proposes to remove expenses that are not allowable for rate
13 making purposes due to a Department of Health and Environmental Control
14 ("DHEC") fine of (\$3,000) paid for Briarcreek Subdivision (Consent Order 04-180-
15 W).

16 Adjustment 10 - ORS and UUCI propose to annualize depreciation expense. ORS
17 used gross plant for the test year of \$5,314,180 and plant additions of \$251,702. The
18 plant additions include pro forma projects, general ledger additions and deletions,
19 capitalized time as of June 30, 2006 totaling \$249,580, and salaries charged to plant
20 of \$2,122 (see ORS Adjustments 19 and 20). ORS adjusted this amount by
21 removing organization, land, vehicles and computers, resulting in net plant,
22 depreciated at 1.5% or 66.7 years. ORS depreciated net vehicles at 25% or four

1 years and included adjustments for the Water Service Corporation ("WSC") office
2 depreciation allocation and the regional office depreciation allocation. ORS included
3 no depreciation for computers because computers were fully depreciated. ORS's
4 total depreciation expense amounted to \$98,958 less the per book amount of
5 \$103,145 for a total adjustment of (\$4,187). UUCI computed depreciation expense
6 using gross plant for the test year and estimated pro forma projects, general ledger
7 additions and deletions, and capitalized time. UUCI's adjustment was calculated
8 using a 1.5% depreciation rate or 66.7 years to depreciate plant. UUCI's adjustment
9 amounted to \$4,897. See Audit Exhibit CLS-5.

10 Adjustment 11 - ORS and UUCI propose to adjust for payroll taxes associated with
11 the adjusted test year salaries. The payroll taxes include FICA, SUTA, and FUTA
12 taxes. ORS computed taxes of \$16,785, less the per book amount of \$17,978,
13 resulting in an adjustment of (\$1,193). UUCI calculated an adjustment of \$6 for
14 payroll taxes.

15 Adjustment 12 - ORS proposes to adjust utility/commission tax and gross receipts tax
16 for the accounting and pro forma adjustments. ORS used a factor of .0112524,
17 which is comprised of the PSC and ORS factor of .0082524 and the Department of
18 Revenue's factor of .003. ORS's total adjustment is \$77 (\$6,813 x .0112524).

19 Adjustment 13 - ORS and UUCI propose to remove an accrual of (\$40,295) from
20 property taxes to reflect the actual total for the test year.

21 Adjustment 14 - ORS and UUCI propose to adjust state income taxes after
22 accounting and pro forma adjustments. ORS and UUCI used a 5% rate for state

1 income taxes. ORS's adjustment is \$393, as calculated in Audit Exhibit CLS-6.

2 Adjustment 15 - ORS and UUCI propose to adjust federal income taxes after
3 accounting and pro forma adjustments. ORS and UUCI used a composite rate of
4 35% for federal income taxes. ORS's adjustment is \$529, as calculated in Audit
5 Exhibit CLS-6.

6 Adjustment 16 - ORS and UUCI propose to adjust the amortization of contributions
7 in aid of construction ("CIAC"). ORS used the gross per book CIAC amount of
8 (\$2,942,737) at 1.50% for an amortization amount of (\$44,141), less the per book
9 amount of (\$44,313), for an adjustment of \$172. UUCI also proposes to use a 1.50%
10 amortization rate for CIAC. See Audit Exhibit CLS-5.

11 Adjustment 17 - ORS and UUCI propose to remove the income associated with
12 capitalized interest for projects under construction or interest during construction.
13 UUCI does not propose to include construction work in progress ("CWIP") in rate
14 base, and therefore, the income associated with CWIP is not included as an offset to
15 expenses. The adjustment amounted to (\$1,064) for ORS and UUCI.

16 Adjustment 18 - ORS proposes to adjust for customer growth in an amount of \$2,522
17 after the accounting and pro forma adjustments using customers as of June 30, 2006,
18 since plant additions are included up to that date. See Audit Exhibit CLS-7.

19 Adjustment 19 - ORS and UUCI propose to adjust for pro forma projects, general
20 ledger additions and deletions and capitalized time. ORS adjusted plant in service for
21 actual plant additions documented as of June 30, 2006 for \$249,580. This plant is
22 known and measurable and provides service to present customers. UUCI proposes to

1 adjust for estimated pro forma projects, general ledger additions and deletions and
2 capitalized time totaling \$271,020.

3 Adjustment 20 - ORS proposes to book to plant the portion of operators' salaries,
4 taxes and benefits associated with capital projects in accordance with ORS's
5 computed capitalization amount of 30.12%. ORS's capitalized salary adjustment
6 amounted to \$2,122 as calculated in ORS Adjustment 5.

7 Adjustment 21 - ORS proposes to reduce accumulated depreciation for the
8 annualized depreciation expense adjustment of \$4,187, as calculated in ORS
9 Adjustment 10, and actual retired plant from October 1, 2005 to June 30, 2006 of
10 \$42,239 for a total adjustment of \$46,426. UUCI proposes to reduce accumulated
11 depreciation using estimated plant additions and retirements for an adjustment of
12 \$15,754.

13 Adjustment 22 - ORS and UUCI propose to adjust cash working capital after
14 accounting and pro forma adjustments. This adjustment reflects the working capital
15 needed, prospectively. ORS's adjustment was (\$1,017) and UUCI's adjustment was
16 \$4,462. See Audit Exhibit CLS-8.

17 Adjustment 23 - ORS proposes to adjust CIAC for amortization of CIAC of (\$172),
18 as a result of ORS Adjustment 16.

19 Adjustment 24 - ORS and UUCI propose to adjust allowable interest expense to
20 reflect the rate base after accounting and pro forma adjustments using the
21 capitalization ratio of 59.10% for debt and 40.90% for equity and a cost of debt of
22 6.42%. ORS's adjustment is for (\$57,738), resulting in allowable interest expense of

1 \$80,142. UUCI used its pro forma rate base to compute an adjustment to interest
2 expense of (\$57,968), for total interest expense of \$79,912. See Audit Exhibit CLS-9
3 for ORS's computed interest expense.

4 Adjustments 25-52 - These adjustments relate to UUCI's transfer of Gem Lakes
5 (Docket No. 2006-130-S) and the relinquishment of its Keowee Townhomes service
6 territory (Docket No. 2006-122-S). The majority of these adjustments are for Gem
7 Lakes only. Keowee Townhomes did not incur any operating expenses during the
8 test year, and Keowee Townhomes rate base only has amounts for gross plant in
9 service and associated accumulated depreciation.

10 Adjustment 25 - The ORS Water/Wastewater Department proposes to remove
11 service revenues of (\$6,368) based on customer billings for the test year ended
12 September 30, 2005 to reflect UUCI's relinquishment of its Keowee Townhomes
13 service territory. Details of this adjustment are shown in Exhibit DMH-7 of ORS
14 Water/Wastewater Program Specialist, Dawn Hipp.

15 Adjustment 26 - The ORS Water/Wastewater Department proposes to remove per
16 book services revenues of (\$146,265) from total revenues to reflect the transfer of
17 Gem Lakes. Details of this adjustment are shown in Exhibit DMH-7 of ORS
18 Water/Wastewater Program Specialist, Dawn Hipp.

19 Adjustment 27 - The ORS Water/Wastewater Department proposes to remove per
20 book miscellaneous revenues of (\$1,663), which includes (\$1,648) of Gem Lakes and
21 (\$15) of Keowee Townhomes, from total revenues to reflect UUCI's transfer of Gem
22 Lakes and the relinquishment of its Keowee Townhomes service territory. Details of

1 these adjustments are shown in Exhibit DMH-7 of ORS Water/Wastewater Program
2 Specialist, Dawn Hipp.

3 Adjustment 28 - ORS proposes to adjust for uncollectible accounts to reflect
4 UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes
5 service territory. ORS used the total service revenues to be removed of (\$152,633),
6 which consisted of (\$6,368) for Keowee Townhomes and (\$146,265) for Gem
7 Lakes, multiplied by an uncollectible rate of 1.5% to calculate uncollectible
8 accounts of \$2,289.

9 Adjustment 29 - ORS proposes to remove Gem Lakes' per book maintenance
10 expenses of (\$64,496) from total expenses to reflect the transfer of Gem Lakes.

11 Adjustment 30 - ORS proposes to adjust its accounting and pro forma adjustment
12 of operators' salaries (ORS Adjustment 4) to reflect the transfer of Gem Lakes by
13 applying a ratio of .0262 to the adjustment amount of \$2,265 for an adjustment of
14 (\$59). This ratio was calculated by taking Gem Lakes operators' salaries per book
15 of \$4,305 to total UUCI operators' salaries per book of \$164,508.

16 Adjustment 31 - ORS proposes to adjust its accounting and pro forma adjustment of
17 operating expense charged to plant to reflect the transfer of Gem Lakes by applying a
18 ratio of .0262 to ORS Adjustment 5 of (\$2,122) for an adjustment of \$56. This ratio
19 is the same ratio calculated in ORS Adjustment 30.

20 Adjustment 32 - ORS proposes to remove per book general expenses of (\$46,013)
21 from total expenses to reflect the transfer of Gem Lakes.

22 Adjustment 33 - ORS proposes to adjust its accounting and pro forma adjustment

1 of office salaries to reflect the transfer of Gem Lakes by applying a ratio of .1477 to
2 ORS Adjustment 6 of \$1,568 for an adjustment of (\$232). This ratio was
3 calculated by taking Gem Lakes office salaries per book of \$5,523 to total UUCI
4 office salaries per book of \$37,400.

5 Adjustment 34 - ORS proposes to adjust its accounting and pro forma adjustment
6 of pension and other benefits to reflect the transfer of Gem Lakes by applying a
7 ratio of .0547 to ORS Adjustment 8 of (\$164) for an adjustment of \$9. This ratio
8 was calculated by taking Gem Lakes pension and other benefits per book of \$1,768
9 to total UUCI pension and other benefits per book of \$32,339.

10 Adjustment 35 - ORS proposes to remove WSC allocated expenses of (\$12,829) for
11 UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes
12 service territory. ORS calculated a ratio of .1964 (Gem Lakes and Keowee
13 Townhomes customers to total UUCI customers) and applied it to total WSC
14 allocations to UUCI of \$65,321.

15 Adjustment 36 - ORS proposes to reduce depreciation expense to reflect UUCI's
16 transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service
17 territory. ORS used the reduction in gross plant in service amount of (\$670,606) in
18 ORS Adjustment 44 plus salaries charged to plant of (\$56) in ORS Adjustment 45
19 totaling (\$670,662) multiplied by the depreciation rate of 1.5% for an adjustment of
20 (\$10,060).

21 Adjustment 37 - ORS proposes to remove per book taxes other than income
22 ("TOTP") of (\$13,634) from total expenses to reflect the transfer of Gem Lakes.

1 Adjustment 38 – ORS proposes to adjust its accounting and pro forma adjustment
2 of payroll taxes to reflect the transfer of Gem Lakes by applying a ratio of .0428 to
3 ORS Adjustment 11 of (\$1,193) for an adjustment of \$51. This ratio was
4 calculated by taking Gem Lakes payroll taxes per book of \$769 to total UUCI
5 payroll taxes per book of \$17,979.

6 Adjustment 39 - ORS proposes to adjust its accounting and pro forma adjustment of
7 utility/commission tax and gross receipts tax to reflect UUCI's transfer of Gem
8 Lakes and relinquishment of its Keowee Townhomes service territory by applying
9 a ratio of .1617 to ORS Adjustment 12 of \$77 for an adjustment of (\$12). This
10 ratio was calculated by taking Gem Lakes and Keowee Townhomes gross revenue
11 per book of \$154,296 to total UUCI gross revenue per book of \$954,059.

12 Adjustment 40 - ORS proposes to adjust state income taxes by \$464 to reflect
13 UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes
14 service territory. See Audit Exhibit CLS-6.

15 Adjustment 41 - ORS proposes to adjust federal income taxes by \$3,087 to reflect
16 UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes
17 service territory. See Audit Exhibit CLS-6.

18 Adjustment 42 - ORS proposes to reduce amortization of CIAC to reflect the transfer
19 of Gem Lakes. ORS used the reduction in CIAC of \$34,120 in Adjustment 48
20 multiplied by the amortization rate of 1.5% for an amortization amount of \$512.

21 Adjustment 43 - ORS proposes to adjust for customer growth by (\$227) to reflect
22 UUCI's transfer of Gem Lakes and the relinquishment of Keowee Townhomes

1 service territory using customers as of June 30, 2006 since plant additions are
2 included up to that date. See Audit Exhibit CLS-7.

3 Adjustment 44 - ORS proposes to remove per book gross plant in service of
4 (\$670,606), which consists of (\$662,010) for Gem Lakes and (\$8,596) for Keowee
5 Townhomes, from total gross plant in service to reflect UUCI's transfer of Gem
6 Lakes and the relinquishment of its Keowee Townhomes service territory.

7 Adjustment 45 - ORS proposes to adjust its accounting and pro forma adjustment of
8 operating expense charged to plant to reflect the transfer of Gem Lakes by applying a
9 ratio of .0262 to ORS Adjustment 20 of \$2,122 for an adjustment of (\$56). This ratio
10 was the same ratio calculated in ORS Adjustment 30.

11 Adjustment 46 - ORS proposes to remove per book accumulated depreciation of
12 \$144,025, which consists of \$143,965 of Gem Lakes and \$60 of Keowee
13 Townhomes, from total accumulated depreciation to reflect UUCI's transfer of Gem
14 Lakes and the relinquishment of its Keowee Townhomes service territory.

15 Adjustment 47 - ORS proposes to adjust cash working capital by (\$15,446) to reflect
16 UUCI's transfer of Gem Lakes and relinquishment of its Keowee Townhomes
17 service territory. See Audit Exhibit CLS-8.

18 Adjustment 48 - ORS proposes to remove per book CIAC of \$34,120 of Gem Lakes
19 from total CIAC to reflect the transfer of Gem Lakes.

20 Adjustment 49 - ORS proposes to remove per book accumulated deferred income
21 taxes ("ADIT") of \$123,876 of Gem Lakes from total ADIT to reflect the transfer of
22 Gem Lakes.

1 Adjustment 50 - ORS proposes to remove per book customer deposits of \$2,190 of
2 Gem Lakes from total customer deposits to reflect the transfer of Gem Lakes.

3 Adjustment 51 - ORS proposes to reduce WSC's rate base allocation for UUCI by
4 (\$2,405) to reflect UUCI's transfer of Gem Lakes and (\$60) to reflect UUCI's
5 relinquishment of its Keowee Townhomes service territory for a total adjustment of
6 (\$2,465). ORS calculated a ratio of .1964 (Gem Lakes and Keowee Townhomes
7 customers to total UUCI customers) and applied it to total WSC rate base allocations
8 to UUCI of \$12,552.

9 Adjustment 52 - ORS proposes to adjust allowable interest expense to reflect the rate
10 base for UUCI's transfer of Gem Lakes and the relinquishment of its Keowee
11 Townhomes service territory using the capitalization ratio of 59.10% for debt and
12 40.90% for equity and a cost of debt of 6.42%. ORS's adjustment is for (\$14,584),
13 resulting in allowable interest expense of \$65,558. See Audit Exhibit CLS-9 for
14 ORS's computed interest expense.

15 Adjustment 53 - ORS and UUCI propose to adjust for the proposed increase to
16 service revenues. ORS proposes to adjust revenues by a total of \$287,094,
17 comprised of \$23,088 for water service and \$264,006 for sewer service. Details of
18 these adjustments are shown in Exhibit DMH-7 of ORS Water/Wastewater Program
19 Specialist, Dawn Hipp. UUCI proposes to adjust revenues by a total of \$294,707,
20 comprised of \$23,079 for water service revenue and \$271,628 for sewer service
21 revenue.

22 Adjustment 54 - ORS and UUCI propose to adjust for uncollectible revenue for the

1 proposed increase. ORS calculated uncollectible revenue of (\$4,306) associated with
2 the proposed revenues of \$287,094 using the uncollectible factor for the test year of
3 1.5% for water and sewer operations. UUCI calculated uncollectible revenue of
4 (\$21,638).

5 Adjustment 55 - ORS and UUCI propose to adjust utility/commission tax and gross
6 receipts tax associated with the proposed revenue. ORS used a factor of .0112524,
7 which is comprised of the PSC and ORS factor of .0082524 and the Department of
8 Revenue's factor of .003. ORS's total adjustment is \$3,231 ($\$287,094 \times .0112524$).
9 UUCI's adjustment is \$3,310.

10 Adjustment 56 - ORS and UUCI propose to adjust state income taxes for the
11 proposed increase. ORS and UUCI used a 5% rate for state income taxes. ORS's
12 adjustment is \$13,979 as calculated in Audit Exhibit CLS-6.

13 Adjustment 57 - ORS and UUCI propose to adjust federal income taxes for the
14 proposed increase. ORS and UUCI used a composite rate of 35% for federal
15 income taxes. ORS's adjustment is \$92,952 as calculated in Audit Exhibit CLS-6.

16 Adjustment 58 - ORS proposes to adjust for customer growth by \$4,080 after the
17 proposed increase using customers as of June 30, 2006, since plant additions are
18 included to that date. See Audit Exhibit CLS-7.

19 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

20 **A.** Audit Exhibit CLS-5 shows the depreciation expense and amortization of CIAC
21 adjustment. Audit Exhibit CLS-6 shows the computation of income taxes. Audit
22 Exhibit CLS-7 shows the customer growth computation. Audit Exhibit CLS-8 shows

1 the cash working capital allowance. Audit Exhibit CLS-9 shows the return on
2 common equity. Audit Exhibit CLS-10 shows the income statement for the test year
3 ended September 30, 2005. Audit Exhibit CLS-11 shows the balance sheet as of
4 September 30, 2005.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes.

REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2006-107-W/S
UNITED UTILITY COMPANIES, INC.

**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2006-107-W/S
UNITED UTILITY COMPANIES, INC.**

INDEX

	<u>PAGE NUMBER</u>
Synopsis-----	i
Analysis-----	1-5
Audit Exhibit CLS-1: Operating Experience, Rate Base and Rates of Return - Combined Operations-----	6
Audit Exhibit CLS-2: Operating Experience, Rate Base and Rates of Return - Water Operations-----	7
Audit Exhibit CLS-3: Operating Experience, Rate Base and Rates of Return - Sewer Operations-----	8
Audit Exhibit CLS-4: Explanation of Accounting and Pro Forma Adjustments - Combined, Water and Sewer Operations-----	9-20
Audit Exhibit CLS-5: Depreciation and Amortization Adjustment-----	21
Audit Exhibit CLS-6: Computation of Income Taxes-----	22-23
Audit Exhibit CLS-7: Customer Growth Computation-----	24
Audit Exhibit CLS-8: Cash Working Capital Allowance-----	25
Audit Exhibit CLS-9: Return on Common Equity – Combined, Water and Sewer Operations-----	26
Audit Exhibit CLS-10: Income Statement-----	27
Audit Exhibit CLS-11: Balance Sheet-----	28

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SYNOPSIS

Amount Requested - Water Operations----- \$23,088
 - Sewer Operations ----- \$264,006
 - Uncollectible Accounts ----- (\$4,306)
 - Combined Operations ----- \$282,788

<u>Return on Rate Base:</u>	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
Per Books -----	0.66%	(3.58%)	1.04%
After Accounting & Pro forma Adjustments-----	4.89%	1.74%	5.14%
As Adjusted Present-----	5.46%	1.74%	5.82%
After Proposed Increase-----	15.68%	10.77%	16.16%

<u>Return on Common Equity:</u>	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
As Adjusted Present-----	4.06%	(5.01%)	4.95%
After Proposed Increase-----	29.07%	17.05%	30.24%

**REPORT OF THE AUDIT DEPARTMENT
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UNITED UTILITY COMPANIES, INC.**

ANALYSIS

The South Carolina Office of Regulatory Staff ("ORS") Audit Department reviewed the application of United Utility Companies, Inc. ("UUCI") along with certain UUCI accounting records, relative to its application for authority to increase certain rates and charges as shown in Docket No. 2006-107-W/S.

UUCI is a water and wastewater utility operating in the State of South Carolina. As of the end of the test year, UUCI furnished both water and sewer service to residential and commercial customers in the counties of Aiken, Anderson, Cherokee, Greenville, Greenwood, Oconee, Spartanburg and Union. UUCI's home office is located at 2335 Sanders Road, Northbrook, Illinois, 60062. Its regional office is located at 110 Queens Parkway, West Columbia, South Carolina 29169. UUCI is a wholly-owned subsidiary of Utilities, Inc., which is also located at the same address in Northbrook, Illinois.

The ORS Audit Department respectfully submits the following results of its review:

1. UUCI filed an application on April 10, 2006 for approval of rates and charges for water and sewer services provided to its residential and commercial customers.
2. This matter is set for public hearing on Monday, August 28, 2006, at 10:30 a.m.
3. UUCI's application uses a test year ending September 30, 2005.
4. The following exhibits are related to UUCI's application for a proposed increase:

AUDIT EXHIBIT CLS-1: OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN – COMBINED OPERATIONS

Shown in this exhibit are UUCI's operating experience, rate base and rates of return for

the test year ended September 30, 2005. The exhibit's format is designed to reflect per book information, applicable accounting and pro forma adjustments necessary to correct or normalize the results of UUCI's test year operations and adjustments to reflect UUCI's transfer of Gem Lakes and relinquishment of its Keowee Townhomes service territory.

ORS verified the per book balances to the books and records of UUCI. The per book figures reflect Total Operating Revenues for UUCI of \$902,941 and Total Operating Income of \$10,924 plus interest during construction ("IDC") of \$1,064, for Net Income for Return of \$11,988. UUCI's per books reflect a Total Rate Base of \$1,815,262. A per book Return on Rate Base of 0.66% was computed using Net Operating Income for Return and Total Rate Base. ORS's accounting and pro forma adjustments were added to per book operations. The net effect of these adjustments produced Total Operating Revenues of \$940,190, Net Income for Return of \$103,343 and a Total Rate Base of \$2,112,201. Using the Net Income for Return and Total Rate Base, ORS computed a Return on Rate Base of 4.89% after accounting and pro forma adjustments. ORS has included the effects of UUCI's transfer of Gem Lakes and relinquishment of its Keowee Townhomes service territory. ORS verified the amounts to UUCI books and records and recomputed corresponding adjustments. ORS removed (\$152,007) from revenue, (\$143,156) from expenses and (\$384,362) from rate base. After the effects of these adjustments, Total Operating Revenues totaled \$788,183, Total Operating Expenses totaled \$696,213 and Net Income for Return totaled \$94,265. ORS computed Total Rate Base of \$1,727,839 and a Return on Rate Base of 5.46%.

UUCI has requested an increase in rates which would produce additional net annual revenues of \$282,788, comprised of a water increase of \$23,088, a sewer increase of \$264,006, and uncollectible revenue of (\$4,306). ORS adjusted utility/commission tax, gross receipts tax, income

taxes and customer growth for the proposed increase.

After the proposed increase, Total Operating Revenues totaled \$1,070,971 and Net Income for Return totaled \$270,971. Total Rate Base after the proposed increase totaled \$1,727,839. Using Net Income for Return and Total Rate Base after the proposed increase, ORS computed a Return on Rate Base of 15.68%.

AUDIT EXHIBIT CLS-2: OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN – WATER OPERATIONS

Shown in this ORS exhibit are the operating experience, rate base and rates of return for UUCI's water operations.

AUDIT EXHIBIT CLS-3: OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN – SEWER OPERATIONS

Shown in this ORS exhibit are the operating experience, rate base and rates of return for UUCI's sewer operations.

AUDIT EXHIBIT CLS-4: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS – COMBINED, WATER AND SEWER OPERATIONS

Shown in this exhibit are the details to reflect accounting and pro forma adjustments made to correct or normalize UUCI's water and sewer operations, reflect UUCI's transfer of Gem Lakes and relinquishment of its Keowee Townhomes service territory and the proposed increase. For comparative purposes, ORS and UUCI's adjustments are both presented in this exhibit.

AUDIT EXHIBIT CLS-5: DEPRECIATION AND AMORTIZATION ADJUSTMENT

Shown in this exhibit are ORS's computations of the adjustments to depreciation expense and the amortization of contributions in aid of construction ("CIAC"). The depreciation rate of 1.5% (66.7 years) was used for plant in service and 25% (4 years) was used for vehicles and

computers as recommended by ORS Water/Wastewater Department.

AUDIT EXHIBIT CLS-6: COMPUTATION OF INCOME TAXES

Shown in this exhibit are ORS's computations of state and federal income taxes based on taxable income after the accounting and pro forma adjustments, after the additional adjustments to reflect UUCI's transfer of Gem Lakes and relinquishment of its Keowee Townhomes service territory, and after the proposed increase. ORS and UUCI used the state income tax rate of 5% and composite federal income tax rate of 35%.

AUDIT EXHIBIT CLS-7: CUSTOMER GROWTH COMPUTATION

Shown in this exhibit are the computations of UUCI's customer growth. ORS used the number of customers at October 1, 2004 and June 30, 2006 to compute the growth factor. Since ORS proposes to include plant additions as of June 30, 2006, the customer growth includes that date as well. ORS computed a growth factor of (3.13%) for water operations, which we will reflect as zero growth, and a growth factor of 2.57% for sewer operations. Combined customer growth was computed by adding water customer growth of 0.00% and sewer customer growth of 2.57%.

AUDIT EXHIBIT CLS-8: CASH WORKING CAPITAL ALLOWANCE

Shown in this exhibit is the calculation of cash working capital after accounting and pro forma adjustments and on as adjusted present operations at September 30, 2005. ORS uses a forty-five day cash working capital allowance since UUCI bills in arrears.

AUDIT EXHIBIT CLS-9: RETURN ON COMMON EQUITY – COMBINED, WATER AND SEWER OPERATIONS

UUCI's return on common equity is computed both before and after the requested increase. The rate base, as shown in Audit Exhibit CLS-1, is allocated among the various classes of debt and equity according to the respective ratios computed using UUCI's parent company's capital

structure as of September 30, 2005.

After accounting and pro forma adjustments, ORS computed the amount of total income for return necessary to cover an embedded cost rate of 6.42% on long-term debt. The remainder of total income for return for combined operations produces a return of 2.69% to common equity after accounting and pro forma adjustments. The overall cost of capital after accounting and pro forma adjustments was 4.89%. Such overall cost equals the return on rate base shown on Audit Exhibit CLS-1.

As adjusted present income available to common equity amounts to \$28,707 and return on common equity amounts to 4.06%. Overall cost of capital as shown in this exhibit equals 5.46%. Such overall cost of capital equals the rate of return on rate base on Audit Exhibit CLS-1.

After the net requested increase of \$282,788, income available to common equity increases to \$205,413 and return on common equity increases to 29.07%. Overall cost of capital as shown in this exhibit equals 15.68%. Such overall cost of capital equals the return on rate base on Audit Exhibit CLS-1.

Included in this exhibit are the returns on common equity as allocated to UUCI's water and sewer operations.

EXHIBIT CLS-10: INCOME STATEMENT

UUCI's income statement for the test year ending September 30, 2005 is reflected in this exhibit. ORS verified the income statement to the books and records of UUCI.

EXHIBIT CLS-11: BALANCE SHEET

Shown in this exhibit is the balance sheet of UUCI as of September 30, 2005. ORS verified the balances contained in this statement to the books and records of UUCI.

United Utility Companies, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Combined Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Gem Lakes and Keowee Townhomes Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
Operating Revenues:							
Service Revenues - Water	43,011	413 (A)	43,424	0 (Q1)	43,424	23,088 (R)	66,512
Service Revenues - Sewer	728,478	6,410 (A)	734,888	(6,368) (Q1)	728,520	264,006 (R)	992,526
Service Revenues - Adjustment GEM Lakes	146,265	0	146,265	(146,265) (Q2)	0	0	0
Miscellaneous Revenues	29,482	0	29,482	(1,663) (Q3)	27,819	0	27,819
Uncollectible Accounts	(44,295)	30,426 (B)	(13,869)	2,289 (Q4)	(11,580)	(4,306) (S)	(15,886)
Total Operating Revenues	902,941	37,249	940,190	(152,007)	788,183	282,788	1,070,971
Operating Expenses:							
Maintenance Expenses	504,072	143 (C)	504,215	(64,499) (Q5)	439,716	0	439,716
General Expenses	194,660	(8,287) (D)	186,373	(59,065) (Q6)	127,308	0	127,308
Depreciation Expense	103,145	(4,187) (E)	98,958	(10,060) (Q7)	88,898	0	88,898
Taxes Other Than Income	122,566	(41,411) (F)	81,155	(13,595) (Q8)	67,560	3,231 (T)	70,791
Income Taxes - State	1,281	393 (G)	1,674	464 (Q9)	2,138	13,979 (U)	16,117
Income Taxes - Federal	10,606	529 (H)	11,135	3,087 (Q10)	14,222	92,952 (V)	107,174
Amortization of CIAC	(44,313)	172 (I)	(44,141)	512 (Q11)	(43,629)	0	(43,629)
Total Operating Expenses	892,017	(52,648)	839,369	(143,156)	696,213	110,162	806,375
Total Operating Income	10,924	89,897	100,821	(8,851)	91,970	172,626	264,596
Interest During Construction	1,064	(1,064) (J)	0	0	0	0	0
Customer Growth	0	2,522 (K)	2,522	(227) (Q12)	2,295	4,080 (W)	6,375
Net Income for Return	11,988	91,355	103,343	(9,078)	94,265	176,706	270,971
Original Cost Rate Base:							
Gross Plant in Service	5,314,180	251,702 (L)	5,565,882	(670,662) (Q13)	4,895,220	0	4,895,220
Accumulated Depreciation	(582,416)	46,426 (M)	(535,990)	144,025 (Q14)	(391,965)	0	(391,965)
Net Plant in Service	4,731,764	298,128	5,029,892	(526,637)	4,503,255	0	4,503,255
Cash Working Capital	87,341	(1,017) (N)	86,324	(15,446) (Q15)	70,878	0	70,878
Contributions in Aid of Construction	(2,599,699)	(172) (O)	(2,599,871)	34,120 (Q16)	(2,565,751)	0	(2,565,751)
Accumulated Deferred Income Taxes	(381,953)	0	(381,953)	123,876 (Q17)	(258,077)	0	(258,077)
Customer Deposits	(34,743)	0	(34,743)	2,190 (Q18)	(32,553)	0	(32,553)
Water Service Corporation - Rate Base	12,552	0	12,552	(2,465) (Q19)	10,087	0	10,087
Total Rate Base	1,815,262	296,939	2,112,201	(384,362)	1,727,839	0	1,727,839
Return on Rate Base	0.66%		4.89%		5.46%		15.68%
Interest Expense	137,880	(57,738) (P)	80,142	(14,584) (Q20)	65,558	0	65,558

United Utility Companies, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Water Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Gem Lakes and Keowee Townhomes Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
Operating Revenues:							
Service Revenues - Water	43,011	413 (A)	43,424	0	43,424	23,088 (R)	66,512
Miscellaneous Revenues	1,114	0	1,114	0	1,114	0	1,114
Uncollectible Accounts	(2,033)	1,382 (B)	(651)	0	(651)	(346) (S)	(997)
Total Operating Revenues	42,092	1,795	43,887	0	43,887	22,742	66,629
Operating Expenses:							
Maintenance Expenses	22,568	9 (C)	22,577	0	22,577	0	22,577
General Expenses	12,283	(333) (D)	11,950	0	11,950	0	11,950
Depreciation Expense	8,165	(806) (E)	7,359	0	7,359	0	7,359
Taxes Other Than Income	7,573	(2,613) (F)	4,960	0	4,960	260 (T)	5,220
Income Taxes - State	59	(315) (G)	(256)	0	(256)	1,125 (U)	869
Income Taxes - Federal	487	(2,186) (H)	(1,699)	0	(1,699)	7,475 (V)	5,776
Amortization of CIAC	(3,682)	(5) (I)	(3,687)	0	(3,687)	0	(3,687)
Total Operating Expenses	47,453	(6,249)	41,204	0	41,204	8,860	50,064
Total Operating Income	(5,361)	8,044	2,683	0	2,683	13,882	16,565
Interest During Construction	84	(84) (J)	0	0	0	0	0
Customer Growth	0	0	0	0	0	0	0
Net Income for Return	(5,277)	7,960	2,683	0	2,683	13,882	16,565
Original Cost Rate Base:							
Gross Plant in Service	426,655	3,990 (L)	430,645	0	430,645	0	430,645
Accumulated Depreciation	(51,379)	2,440 (M)	(48,939)	0	(48,939)	0	(48,939)
Net Plant in Service	375,276	6,430	381,706	0	381,706	0	381,706
Cash Working Capital	4,356	(40) (N)	4,316	0	4,316	0	4,316
Contributions in Aid of Construction	(206,977)	5 (O)	(206,972)	0	(206,972)	0	(206,972)
Accumulated Deferred Income Taxes	(23,787)	0	(23,787)	0	(23,787)	0	(23,787)
Customer Deposits	(2,192)	0	(2,192)	0	(2,192)	0	(2,192)
Water Service Corporation - Rate Base	792	0	792	0	792	0	792
Total Rate Base	147,468	6,395	153,863	0	153,863	0	153,863
Return on Rate Base	-3.58%		1.74%		1.74%		10.77%
Interest Expense	10,917	(5,079) (P)	5,838	0	5,838	0	5,838

United Utility Companies, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Sewer Operations

<u>Description</u>	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Gem Lakes and Keowee Townhomes Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
<u>Operating Revenues:</u>							
Service Revenues - Sewer	728,478	6,410 (A)	734,888	(6,368) (Q1)	728,520	264,006 (R)	992,526
Service Revenues - Adjustment GEM Lakes	146,265	0	146,265	(146,265) (Q2)	0	0	0
Miscellaneous Revenues	28,368	0	28,368	(1,663) (Q3)	26,705	0	26,705
Uncollectible Accounts	(42,262)	29,044 (B)	(13,218)	2,289 (Q4)	(10,929)	(3,960) (S)	(14,889)
<u>Total Operating Revenues</u>	860,849	35,454	896,303	(152,007)	744,296	260,046	1,004,342
<u>Operating Expenses:</u>							
Maintenance Expenses	481,504	134 (C)	481,638	(64,499) (Q5)	417,139	0	417,139
General Expenses	182,377	(7,954) (D)	174,423	(59,065) (Q6)	115,358	0	115,358
Depreciation Expense	94,980	(3,381) (E)	91,599	(10,060) (Q7)	81,539	0	81,539
Taxes Other Than Income	114,993	(36,798) (F)	76,195	(13,595) (Q8)	62,600	2,971 (T)	65,571
Income Taxes - State	1,222	708 (G)	1,930	464 (Q9)	2,394	12,854 (U)	15,248
Income Taxes - Federal	10,119	2,715 (H)	12,834	3,087 (Q10)	15,921	85,477 (V)	101,398
Amortization of CIAC	(40,631)	177 (I)	(40,454)	512 (Q11)	(39,942)	0	(39,942)
<u>Total Operating Expenses</u>	844,564	(46,399)	798,165	(143,156)	655,009	101,302	756,311
<u>Total Operating Income</u>	16,285	81,853	98,138	(8,851)	89,287	158,744	248,031
Interest During Construction	980	(980) (J)	0	0	0	0	0
Customer Growth	0	2,522 (K)	2,522	(227) (Q12)	2,295	4,080 (W)	6,375
<u>Net Income for Return</u>	17,265	83,395	100,660	(9,078)	91,582	162,824	254,406
<u>Original Cost Rate Base:</u>							
Gross Plant in Service	4,887,525	247,712 (L)	5,135,237	(670,662) (Q13)	4,464,575	0	4,464,575
Accumulated Depreciation	(531,037)	43,986 (M)	(487,051)	144,025 (Q14)	(343,026)	0	(343,026)
Net Plant in Service	4,356,488	291,698	4,646,186	(526,637)	4,121,549	0	4,121,549
Cash Working Capital	82,985	(977) (N)	82,008	(15,446) (Q15)	66,562	0	66,562
Contributions in Aid of Construction	(2,392,722)	(177) (O)	(2,392,899)	34,120 (Q16)	(2,358,779)	0	(2,358,779)
Accumulated Deferred Income Taxes	(358,166)	0	(358,166)	123,876 (Q17)	(234,290)	0	(234,290)
Customer Deposits	(32,551)	0	(32,551)	2,190 (Q18)	(30,361)	0	(30,361)
Water Service Corporation - Rate Base	11,760	0	11,760	(2,465) (Q19)	9,295	0	9,295
<u>Total Rate Base</u>	1,667,794	290,544	1,958,338	(384,362)	1,573,976	0	1,573,976
<u>Return on Rate Base</u>	1.04%		5.14%		5.82%		16.16%
<u>Interest Expense</u>	126,963	(52,659) (P)	74,304	(14,584) (Q20)	59,720	0	59,720

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Accounting and Pro forma Adjustments</u>			
(A) Service Revenues			
1 ORS and UUCI propose to adjust service revenues to reflect test year customer billings.			
Per ORS	6,823	413	6,410
Per UUCI	9,717	412	9,305
2 UUCI proposes to remove sewer revenues relating to Gem Lakes which are not part of the test year period. ORS adjusts for revenues relating to Gem Lakes in ORS Adjustment 26.			
Per ORS	0	0	0
Per UUCI	(59,023)	0	(59,023)
(B) Uncollectible Accounts			
3 ORS proposes to adjust uncollectible accounts after accounting and pro forma adjustments to service revenues. ORS applied an uncollectible rate of 1.5% to total service revenues of \$924,577, less the uncollectible accounts per book amount of (\$44,295) for an adjustment of \$30,426.			
Per ORS	30,426	1,382	29,044
Per UUCI	0	0	0
(C) Maintenance Expenses			
4 ORS and UUCI propose to adjust operators' salaries for the test year. ORS proposes to annualize operators' salaries using salaries as of May 2006 and salary allocation factors as of September 30, 2005. ORS did not include a 4% cost of living increase, since supporting documentation was not received in sufficient time to allow for its audit. UUCI included a 4% cost of living increase.			
Per ORS	2,265	143	2,122
Per UUCI	16,387	1,037	15,350

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
5 ORS and UUCI propose to adjust operating expense charged to plant to reflect the proposed adjustment to operators' salaries and related taxes and benefits. ORS computed a factor of 30.12% using actual test year data. UUCI used a capitalization factor of 30.20% which was based on annualized salaries.			
Per ORS	(2,122)	(134)	(1,988)
Per UUCI	(7,210)	(455)	(6,755)
Total Per ORS	143	9	134

(D) General Expenses

6 ORS and UUCI propose to adjust office salaries for the test year. ORS proposes to annualize office salaries using salaries as of May 2006 and salary allocation factors as of September 30, 2005. ORS did not include a 4% cost of living increase, since supporting documentation was not received in sufficient time to allow for its audit. UUCI included a 4% cost of living increase.

Per ORS	1,568	99	1,469
Per UUCI	3,311	210	3,101

7 ORS and UUCI propose to include current rate case expenses amortized over a three-year period. ORS included rate case expenses of \$84,928 amortized over a three-year period for a total of \$28,309 less per book amount of \$35,000 for an adjustment of (\$6,691). The current rate case expenses include UUCI's portion of the Utilities Management Audit costs. ORS adjusted rate case expenses for actual expenses documented as of July 21, 2006.

Per ORS	(6,691)	(422)	(6,269)
Per UUCI	22,155	1,398	20,757

8 ORS and UUCI propose to adjust pension and other benefits associated with the adjusted test year salaries.

Per ORS	(164)	(10)	(154)
Per UUCI	1,050	67	983

9 ORS proposes to remove DHEC fines paid for Briarcreek Subdivision (Consent Order 04-180-W) that are not allowable for rate making purposes.

Per ORS	(3,000)	0	(3,000)
Per UUCI	0	0	0
Total Per ORS	(8,287)	(333)	(7,954)

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(E) Depreciation Expense			
10 ORS proposes to annualize depreciation expense as of June 30, 2006 for known and measurable plant in service. UUCI proposes to annualize depreciation expense using estimated plant additions. See Audit Exhibit CLS-5.			
Per ORS	(4,187)	(806)	(3,381)
Per UUCI	4,897	(151)	5,048
(F) Taxes Other Than Income			
11 ORS and UUCI propose to adjust for payroll taxes associated with the adjusted test year salaries.			
Per ORS	(1,193)	(75)	(1,118)
Per UUCI	6	1	5
12 ORS proposes to adjust utility/commission tax and gross receipts tax after the accounting and pro forma adjustments using a factor of .0112524 (.0082524 for PSC/ORS and .003 for SCDOR).			
Per ORS	77	5	72
Per UUCI	0	0	0
13 ORS and UUCI propose to remove a tax accrual for property taxes to reflect actual test year expense.			
Per ORS	(40,295)	(2,543)	(37,752)
Per UUCI	(40,295)	(2,543)	(37,752)
Total Per ORS	(41,411)	(2,613)	(38,798)
(G) Income Taxes - State			
14 ORS and UUCI propose to adjust state income taxes after accounting and pro forma adjustments. See Audit Exhibit CLS-6.			
Per ORS	393	(315)	708
Per UUCI	(6,678)	(553)	(6,125)

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(H) Income Taxes - Federal			
15 ORS and UUCI propose to adjust federal income taxes after accounting and pro forma adjustments. See Audit Exhibit CLS-6.			
Per ORS	529	(2,186)	2,715
Per UUCI	(46,495)	(3,770)	(42,725)
(I) Amortization of Contributions in Aid of Construction (CIAC)			
16 ORS and UUCI propose to annualize amortization of CIAC expense as of September 30, 2005. The purpose of this adjustment is to properly calculate amortization expense associated with CIAC. See Audit Exhibit CLS-5.			
Per ORS	172	(5)	177
Per UUCI	1,230	54	1,176
(J) Interest During Construction (IDC)			
17 ORS and UUCI propose to eliminate IDC for rate making purposes. ORS and UUCI did not include construction work in progress in rate base. Therefore, IDC is eliminated as an addition to net income.			
Per ORS	(1,064)	(84)	(980)
Per UUCI	(1,064)	(84)	(980)
(K) Customer Growth			
18 ORS proposes to adjust for customer growth after the accounting and pro forma adjustments. ORS used customers as of June 30, 2006, since plant additions through that date have been included. See Audit Exhibit CLS-7.			
Per ORS	2,522	0	2,522
Per UUCI	0	0	0
(L) Gross Plant in Service			
19 ORS and UUCI propose to adjust for pro forma projects, general ledger additions and deletions and capitalized time. ORS adjusted plant in service for actual plant additions documented as of June 30, 2006.			
Per ORS	249,580	3,856	245,724
Per UUCI	271,020	6,774	264,246

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
20 ORS proposes to capitalize 30.12% of the operators' salaries, taxes and benefits as a result of the salary adjustment.			
Per ORS	2,122	134	1,988
Per UUCI	0	0	0
Total Per ORS	<u>251,702</u>	<u>3,990</u>	<u>247,712</u>
(M) Accumulated Depreciation			
21 ORS proposes to reduce accumulated depreciation for the annualized depreciation expense adjustment of \$4,187 and general ledger retirements from October 1, 2005 to June 30, 2006 of \$42,239. UUCI proposes to reduce accumulated depreciation using estimated plant additions and retirements.			
Per ORS	<u>46,426</u>	<u>2,440</u>	<u>43,986</u>
Per UUCI	<u>15,754</u>	<u>(160)</u>	<u>15,914</u>
(N) Cash Working Capital			
22 ORS and UUCI propose to adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CLS-8.			
Per ORS	<u>(1,017)</u>	<u>(40)</u>	<u>(977)</u>
Per UUCI	<u>4,462</u>	<u>282</u>	<u>4,180</u>
(O) Contributions in Aid of Construction (CIAC)			
23 ORS proposes to adjust CIAC to reflect the amortization of CIAC expense as of September 30, 2005, as a result of ORS Adjustment 16.			
Per ORS	<u>(172)</u>	<u>5</u>	<u>(177)</u>
Per UUCI	<u>0</u>	<u>0</u>	<u>0</u>
(P) Interest Expense			
24 ORS and UUCI propose to adjust interest on debt using 59.10% and 40.90% as the debt to equity ratio and 6.42% cost of debt. ORS and UUCI propose to compute allowable interest expense after accounting and pro forma adjustments. See Audit Exhibit CLS-9.			
Per ORS	<u>(57,738)</u>	<u>(5,079)</u>	<u>(52,659)</u>
Per UUCI	<u>(57,968)</u>	<u>(5,061)</u>	<u>(52,907)</u>

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Gem Lakes (Docket No. 2006-130-S) and Keowee Townhomes (Docket No. 2006-122-S) Adjustments</u>			
(Q1) Service Revenues			
25 ORS proposes to remove service revenues based on test year customer billings to reflect UUCI's relinquishment of its Keowee Townhomes service territory.			
Per ORS	(6,368)	0	(6,368)
Per UUCI	0	0	0
(Q2) Service Revenues - Adjustment Gem Lakes			
26 ORS proposes to remove per book service revenues of Gem Lakes from total revenues to reflect the transfer of Gem Lakes. UUCI proposes to reduce revenues of Gem Lakes of (\$59,023) in Adjustment 2.			
Per ORS	(146,265)	0	(146,265)
Per UUCI	0	0	0
(Q3) Miscellaneous Revenues			
27 ORS proposes to remove per book miscellaneous revenues of (\$1,648) of Gem Lakes and (\$15) of Keowee Townhomes from total revenues to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory.			
Per ORS	(1,663)	0	(1,663)
Per UUCI	0	0	0
(Q4) Uncollectible Accounts			
28 ORS proposes to adjust uncollectible accounts to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory. ORS used the adjustments to service revenues of (\$6,368) and (\$146,265) multiplied by an uncollectible rate of 1.5% to calculate uncollectible revenues.			
Per ORS	2,289	0	2,289
Per UUCI	0	0	0
(Q5) Maintenance Expenses			
29 ORS proposes to remove per book maintenance expenses of Gem Lakes from total expenses to reflect the transfer of Gem Lakes.			
Per ORS	(64,496)	0	(64,496)
Per UUCI	0	0	0

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
30 ORS proposes to adjust its accounting and pro forma adjustment of operators' salaries to reflect the transfer of Gem Lakes by applying a ratio of .0262 (Gem Lakes operators' salaries per book to total UUCI operators' salaries per book) to Adjustment 4 of \$2,265.			
Per ORS	(59)	0	(59)
Per UUCI	0	0	0
31 ORS proposes to adjust its accounting and pro forma adjustment of operating expense charged to plant to reflect the transfer of Gem Lakes by applying a ratio of .0262 (Gem Lakes operators' salaries per book to total UUCI operators' salaries per book) to Adjustment 5 of (\$2,122).			
Per ORS	56	0	56
Per UUCI	0	0	0
Total Per ORS	(64,499)	0	(64,499)

(Q6) General Expenses

32 ORS proposes to remove per book general expenses of Gem Lakes from total expenses to reflect the transfer of Gem Lakes.

Per ORS	(46,013)	0	(46,013)
Per UUCI	0	0	0

33 ORS proposes to adjust its accounting and pro forma adjustment of office salaries to reflect the transfer of Gem Lakes by applying a ratio of .1477 (Gem Lakes office salaries per book to total UUCI office salaries per book) to Adjustment 6 of \$1,568.

Per ORS	(232)	0	(232)
Per UUCI	0	0	0

34 ORS proposes to adjust its accounting and pro forma adjustment of pension and other benefits to reflect the transfer of Gem Lakes by applying a ratio of .0547 (Gem Lakes pension & other benefits per book to total UUCI pension & other benefits per book) to Adjustment 8 of (\$164).

Per ORS	9	0	9
Per UUCI	0	0	0

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
35 ORS proposes to remove allocation amounts from the parent company for UUCI's transfer of Gem Lakes and its relinquishment of Keowee Townhomes service territory.			
Per ORS	(12,829)	0	(12,829)
Per UUCI	0	0	0
Total Per ORS	(59,065)	0	(59,065)
(Q7) Depreciation Expense			
36 ORS proposes to reduce depreciation expense to reflect UUCI's transfer of Gem Lakes and its relinquishment of Keowee Townhomes service territory. ORS used the reduction in gross plant in service amount of (\$670,606) plus salaries charged to plant of (\$56) totaling (\$670,662) multiplied by the depreciation rate of 1.5%.			
Per ORS	(10,060)	0	(10,060)
Per UUCI	0	0	0
(Q8) Taxes Other than Income (TOTI)			
37 ORS proposes to remove per book TOTI of Gem Lakes from total expenses to reflect the transfer of Gem Lakes.			
Per ORS	(13,634)	0	(13,634)
Per UUCI	0	0	0
38 ORS proposes to adjust its accounting and pro forma adjustment of payroll taxes to reflect the transfer of Gem Lakes by applying a ratio of .0428 (Gem Lakes payroll taxes per book to total UUCI payroll taxes per book) to Adjustment 11 of (\$1,193).			
Per ORS	51	0	51
Per UUCI	0	0	0
39 ORS proposes to adjust its accounting and pro forma adjustment of utility/commission tax and gross receipts tax to reflect the transfer of Gem Lakes by applying a ratio of .1617 (Gem Lakes gross revenues per book to total UUCI gross revenues per book) to Adjustment 12 of \$77.			
Per ORS	(12)	0	(12)
Per UUCI	0	0	0
Total Per ORS	(13,595)	0	(13,595)

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(Q9) Income Taxes - State			
40 ORS proposes to adjust state income taxes to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory. See Audit Exhibit CLS-6.			
Per ORS	464	0	464
Per UUCI	0	0	0
(Q10) Income Taxes - Federal			
41 ORS proposes to adjust federal income taxes to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory. See Audit Exhibit CLS-6.			
Per ORS	3,087	0	3,087
Per UUCI	0	0	0
(Q11) Amortization of CIAC			
42 ORS proposes to reduce amortization of CIAC to reflect the transfer of Gem Lakes. ORS used the reduction in CIAC of \$34,120 in Adjustment 48 multiplied by the amortization rate of 1.5%.			
Per ORS	512	0	512
Per UUCI	0	0	0
(Q12) Customer Growth			
43 ORS proposes to adjust for customer growth after the Gem Lakes and Keowee Townhomes adjustments. ORS used customers as of June 30, 2006, since plant additions through that date have been included. See Audit Exhibit CLS-7.			
Per ORS	(227)	0	(227)
Per UUCI	0	0	0
(Q13) Gross Plant in Service			
44 ORS proposes to remove per book gross plant in service of (\$662,010) of Gem Lakes and (\$8,596) of Keowee Townhomes from total gross plant in service to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory.			
Per ORS	(670,606)	0	(670,606)
Per UUCI	0	0	0

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
45 ORS proposes to adjust its accounting and pro forma adjustment of operating expense charged to plant to reflect the transfer of Gem Lakes by applying a ratio of .0262 (Gem Lakes operators' salaries per book to total UUCI operators' salaries per book) to Adjustment 20 of \$2,122.			
Per ORS	(56)	0	(56)
Per UUCI	0	0	0
Total Per ORS	(670,662)	0	(670,662)
(Q14) Accumulated Depreciation			
46 ORS proposes to remove per book accumulated depreciation of \$143,965 of Gem Lakes and \$60 of Keowee Townhomes from total accumulated depreciation to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory.			
Per ORS	144,025	0	144,025
Per UUCI	0	0	0
(Q15) Cash Working Capital			
47 ORS proposes to adjust cash working capital to reflect the transfer of Gem Lakes. See Audit Exhibit CLS-8.			
Per ORS	(15,446)	0	(15,446)
Per UUCI	0	0	0
(Q16) Contributions in Aid of Construction (CIAC)			
48 ORS proposes to remove per book CIAC of Gem Lakes from total CIAC to reflect the transfer of Gem Lakes.			
Per ORS	34,120	0	34,120
Per UUCI	0	0	0
(Q17) Accumulated Deferred Income Taxes (ADIT)			
49 ORS proposes to remove per book ADIT of Gem Lakes from total ADIT to reflect the transfer of Gem Lakes.			
Per ORS	123,876	0	123,876
Per UUCI	0	0	0

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(Q18) Customer Deposits			
50 ORS proposes to remove per book customer deposits of Gem Lakes from total customer deposits to reflect the transfer of Gem Lakes.			
Per ORS	2,190	0	2,190
Per UUCI	0	0	0
(Q19) Water Service Corporation - Rate Base			
51 ORS proposes to adjust Water Service Corporation - Rate Base amount to reflect UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory.			
Per ORS	(2,465)	0	(2,465)
Per UUCI	0	0	0
(Q20) Interest Expense			
52 ORS proposes to adjust interest on debt using 59.10% and 40.90% as the debt to equity ratio and 6.42% cost of debt. ORS proposes to compute allowable interest expense after UUCI's transfer of Gem Lakes and the relinquishment of its Keowee Townhomes service territory. See Audit Exhibit CLS-9.			
Per ORS	(14,584)	0	(14,584)
Per UUCI	0	0	0
<u>Proposed Increase</u>			
(R) Service Revenues			
53 ORS and UUCI propose an increase in service revenues.			
Per ORS	287,094	23,088	264,006
Per UUCI	294,707	23,079	271,628
(S) Uncollectible Accounts			
54 ORS and UUCI propose to adjust uncollectible accounts for the proposed increase. ORS proposes to use an uncollectible rate of 1.5% to calculate uncollectible revenues.			
Per ORS	(4,306)	(346)	(3,960)
Per UUCI	(21,638)	(1,081)	(20,557)

United Utility Companies, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(T) Taxes Other Than Income			
55 ORS and UUCI propose to adjust utility/commission tax and gross receipts tax for the proposed increase using a factor of .0112524 (.0082524 for PSC/ORS and .003 for SCDOR).			
Per ORS	3,231	260	2,971
Per UUCI	3,310	259	3,051
(U) Income Taxes - State			
56 ORS and UUCI propose to adjust state income taxes for the proposed increase. See Audit Exhibit CLS-6.			
Per ORS	13,979	1,125	12,854
Per UUCI	13,488	1,087	12,401
(V) Income Taxes - Federal			
57 ORS and UUCI propose to adjust federal income taxes for the proposed increase. See Audit Exhibit CLS-6.			
Per ORS	92,952	7,475	85,477
Per UUCI	89,695	7,228	82,467
(W) Customer Growth			
58 ORS proposes to adjust customer growth for the proposed increase. ORS used customers as of June 30, 2006, since plant additions through that date have been included. See Audit Exhibit CLS-7.			
Per ORS	4,080	0	4,080
Per UUCI	0	0	0

United Utility Companies, Inc.
Depreciation and Amortization Adjustment
For the Test Year Ended September 30, 2005

	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
	\$	\$	\$
<u>Depreciation Adjustment</u>			
Gross Plant @ 9-30-05	5,314,180	426,655	4,887,525
Add:			
GL Additions & Deletions,	251,702	3,990	247,712
Capitalized Time & Pro forma			
Projects @ 6-30-06			
Less:			
Organization @ 6-30-06	(27,128)	(6,000)	(21,128)
Land @ 6-30-06	(21,090)	(2,150)	(18,940)
Vehicles @ 6-30-06	(82,267)	(5,193)	(77,074)
Computers @ 6-30-06	(1,122)	(71)	(1,051)
Net Plant	5,434,275	417,231	5,017,044
Plant Depreciation @ 1.5%	81,514	6,258	75,256
(66.67 years)			
Vehicles @ 6-30-06	82,267	5,193	77,074
Less: Fully Depreciated Vehicles	(21,260)	(1,342)	(19,918)
	61,007	3,851	57,156
Vehicle Depreciation @ 25%	15,252	963	14,289
(4 years)			
Computers @ 6-30-06	1,122	71	1,051
Less: Fully Depreciated Computers	(1,122)	(71)	(1,051)
	0	0	0
Computer Depreciation @ 25%	0	0	0
(4 years)			
WSC Office Depreciation Allocation	1,876	118	1,758
Regional Office Depreciation Allocation	316	20	296
Total Depreciation	98,958	7,359	91,599
Less: Per Books Depreciation	103,145	8,165	94,980
ORS Adjustment	(4,187)	(806)	(3,381)
Company's Adjustment	4,897	(151)	5,048
<u>Amortization of CIAC Adjustment</u>			
CIAC @ 9-30-05	(2,942,737)	(245,828)	(2,696,909)
CIAC Amortization @ 1.5%	(44,141)	(3,687)	(40,454)
(66.67 years)			
Less: Per Books Amortization of CIAC	(44,313)	(3,682)	(40,631)
ORS Adjustment	172	(5)	177
Company's Adjustment	1,230	54	1,176

United Utility Companies, Inc.
Computation of Income Taxes
For the Test Year Ended September 30, 2005

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	940,190	43,887	896,303
Operating Expenses	826,560	43,159	783,401
Net Operating Income Before Taxes	113,630	728	112,902
Less: Annualized Interest Expense	80,142	5,838	74,304
Taxable Income - State	33,488	(5,110)	38,598
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	1,674	(256)	1,930
Less: State Income Taxes Per Book	1,281	59	1,222
Adjustment to State Income Taxes	393	(315)	708
Taxable Income - Federal	31,814	(4,854)	36,668
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	11,135	(1,699)	12,834
Less: Federal Income Taxes Per Book	10,606	487	10,119
Adjustment to Federal Income Taxes	529	(2,186)	2,715
As Adjusted Present			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	788,183	43,887	744,296
Operating Expenses	679,853	43,159	636,694
Net Operating Income Before Taxes	108,330	728	107,602
Less: Annualized Interest Expense	65,558	5,838	59,720
Taxable Income - State	42,772	(5,110)	47,882
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	2,138	(256)	2,394
Less: State Income Taxes - After Accounting & Pro Forma Adjustments	1,674	(256)	1,930
Adjustment to State Income Taxes	464	0	464
Taxable Income - Federal	40,634	(4,854)	45,488
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	14,222	(1,699)	15,921
Less: Federal Income Taxes After Accounting & Pro Forma Adjustments	11,135	(1,699)	12,834
Adjustment to Federal Income Taxes	3,087	0	3,087

United Utility Companies, Inc.
Computation of Income Taxes
For the Test Year Ended September 30, 2005

	After Proposed Increase		
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	1,070,971	66,629	1,004,342
Operating Expenses	683,084	43,419	639,665
Net Operating Income Before Taxes	387,887	23,210	364,677
Less: Annualized Interest Expense	65,558	5,838	59,720
Taxable Income - State	322,329	17,372	304,957
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	16,117	869	15,248
Less: State Income Taxes As Adjusted Present	2,138	(256)	2,394
Adjustment to State Income Taxes	13,979	1,125	12,854
Taxable Income - Federal	306,212	16,503	289,709
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	107,174	5,776	101,398
Less: Federal Income Taxes As Adjusted Present	14,222	(1,699)	15,921
Adjustment to Federal Income Taxes	92,952	7,475	85,477

United Utility Companies, Inc.
Customer Growth Computation
For the Test Year Ended September 30, 2005

<u>Combined Operations:</u>	After Accounting & Pro Forma Adjustments	Gem Lakes & Keowee Townhomes Adjustments	As Adjusted Present	Proposed Increase	After Proposed Increase
Description	\$	\$	\$	\$	\$
Water Customer Growth	0	0	0	0	0
Sewer Customer Growth	2,522	(227)	2,295	4,080	6,375
Combined Customer Growth	2,522	(227)	2,295	4,080	6,375

<u>Number of Customers:</u>						
Beginning	1,878	Formula:				
Ending	1,967	Ending - Average	=	44	=	2.29%
Average	1,923	Average		1,923		

Water Operations:

Total Operating Income	2,683	0	2,683	13,882	16,565
Growth Factor	-3.13%	-3.13%	-3.13%	-3.13%	-3.13%
Customer Growth	0	0	0	0	0

<u>Number of Customers:</u>						
Beginning	99	Formula:				
Ending	93	<u>Ending - Average</u>	=	<u>(3)</u>	=	<u>-3.13%</u>
Average	96	<u>Average</u>		<u>96</u>		

Sewer Operations:

Total Operating Income	98,138	(8,851)	89,287	158,744	248,031
Growth Factor	2.57%	2.57%	2.57%	2.57%	2.57%
Customer Growth	2,522	(227)	2,295	4,080	6,375

<u>Number of Customers:</u>						
Beginning	1,779	Formula:				
Ending	1,874	Ending - Average	=	47	=	2.57%
Average	1,827	Average		1,827		

Note: Combined customer growth equals water operations plus sewer operations customer growth

Beginning customer growth is @ 10/1/2004.

Ending customer growth is @ 6/30/2006.

United Utility Companies, Inc.
Cash Working Capital Allowance
For the Test Year Ended September 30, 2005

<u>After Accounting & Pro Forma Adjustments</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
Maintenance Expenses	504,215	22,577	481,638
General Expenses	186,373	11,950	174,423
Total Expenses for Computation	690,588	34,527	656,061
Allowable Rate	12.50%	12.50%	12.50%
Computed Cash Working Capital	86,324	4,316	82,008
Cash Working Capital - Per Books	87,341	4,356	82,985
Cash Working Capital Adjustment - ORS After Accounting & Pro Forma Adjustments	(1,017)	(40)	(977)
Cash Working Capital Adjustment - UUCI	4,462	282	4,180
<u>As Adjusted Present</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
Maintenance Expenses	439,716	22,577	417,139
General Expenses	127,308	11,950	115,358
Total Expenses for Computation	567,024	34,527	532,497
Allowable Rate	12.50%	12.50%	12.50%
Computed Cash Working Capital - As Adjusted	70,878	4,316	66,562
Cash Working Capital - After Accounting & Pro Forma Adjustments	86,324	4,316	82,008
Cash Working Capital Adjustment - ORS As Adjusted Present	(15,446)	0	(15,446)
Cash Working Capital Adjustment - UUCI	0	0	0

United Utility Companies, Inc.
Return on Common Equity
Capital Structure at September 30, 2005

Combined Operations

Description	Capital Structure	-----After Accounting & Pro Forma Adjustments-----				-----As Adjusted Present-----				-----After Proposed Increase-----			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return
		%	\$	%	%	\$	\$	%	%	\$	\$	%	%
Long-Term Debt	136,789,585	59.10%	1,248,311	6.42%	3.79%	80,142	1,021,153	6.42%	3.79%	65,558	1,021,153	6.42%	3.79%
Common Equity	94,651,855	40.90%	863,890	2.69%	1.10%	23,201	706,686	4.06%	1.67%	28,707	706,686	29.07%	11.89%
Totals	231,441,440	100.00%	2,112,201		4.89%	103,343	1,727,839		5.46%	94,265	1,727,839		15.68%

Water Operations

Description	Capital Structure	-----After Accounting & Pro Forma Adjustments-----				-----As Adjusted Present-----				-----After Proposed Increase-----			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return
		%	\$	%	%	\$	\$	%	%	\$	\$	%	%
Long-Term Debt	136,789,585	59.10%	90,933	6.42%	3.79%	5,838	90,933	6.42%	3.79%	5,838	90,933	6.42%	3.79%
Common Equity	94,651,855	40.90%	62,930	-5.01%	-2.05%	(3,155)	62,930	-5.01%	-2.05%	(3,155)	62,930	17.05%	6.98%
Totals	231,441,440	100.00%	153,863		1.74%	2,683	153,863		1.74%	2,683	153,863		10.77%

Sewer Operations

Description	Capital Structure	-----After Accounting & Pro Forma Adjustments-----				-----As Adjusted Present-----				-----After Proposed Increase-----			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return
		%	\$	%	%	\$	\$	%	%	\$	\$	%	%
Long-Term Debt	136,789,585	59.10%	1,157,378	6.42%	3.79%	74,304	930,220	6.42%	3.79%	59,720	930,220	6.42%	3.79%
Common Equity	94,651,855	40.90%	800,960	3.29%	1.35%	26,356	643,756	4.95%	2.03%	31,862	643,756	30.24%	12.37%
Totals	231,441,440	100.00%	1,958,338		5.14%	100,660	1,573,976		5.82%	91,582	1,573,976		16.16%

Note: ORS used the capital structure of the parent company @ 9/30/2005.

United Utility Companies, Inc.
Income Statement
For the Test Year Ended September 30, 2005

	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
	\$	\$	\$
<u>Operating Revenues</u>			
Service Revenues - Water	43,011	43,011	0
Service Revenues - Sewer	728,478	0	728,478
Service Revenues - GEM Lakes Adj.	146,265	0	146,265
Miscellaneous Revenues	29,482	1,114	28,368
Uncollectible Accounts	(44,295)	(2,033)	(42,262)
Total Operating Revenues	<u>902,941</u>	<u>42,092</u>	<u>860,849</u>
<u>Maintenance Expenses</u>			
Salaries and Wages	164,507	10,380	154,127
Purchased Power	90,360	3,508	86,852
Purchased Sewer & Water	7,601	0	7,601
Maintenance and Repair	207,550	6,727	200,823
Maintenance Testing	35,200	2,024	33,176
Meter Reading	0	0	0
Chemicals	27,199	1,716	25,483
Transportation	22,599	1,426	21,173
Operating Expense Charged to Plant	(59,722)	(3,768)	(55,954)
Outside Services - Other	8,777	554	8,223
Total	<u>504,071</u>	<u>22,567</u>	<u>481,504</u>
<u>General Expenses</u>			
Salaries and Wages	37,400	2,360	35,040
Office Supplies & Other Office Expense	36,079	2,277	33,802
Regulatory Commission Expense	35,001	2,209	32,792
Pension & Other Benefits	32,339	2,041	30,298
Rent	0	0	0
Insurance	34,512	2,178	32,334
Office Utilities	8,730	551	8,179
Miscellaneous	10,601	669	9,932
Total	<u>194,662</u>	<u>12,285</u>	<u>182,377</u>
Depreciation	103,145	8,165	94,980
Taxes Other Than Income	122,566	7,573	114,993
Income Taxes - Federal	10,606	487	10,119
Income Taxes - State	1,281	59	1,222
Amortization of ITC	0	0	0
Amortization of PAA	0	0	0
Amortization of CIAC	(44,313)	(3,682)	(40,631)
Total	<u>193,285</u>	<u>12,602</u>	<u>180,683</u>
Total Operating Expenses	<u>892,018</u>	<u>47,454</u>	<u>844,564</u>
Net Operating Income	<u>10,923</u>	<u>(5,362)</u>	<u>16,285</u>
Interest During Construction	(1,064)	(84)	(980)
Interest on Debt	137,880	10,917	126,963
Net Income	<u>(125,893)</u>	<u>(16,195)</u>	<u>(109,698)</u>

United Utility Companies, Inc.
Balance Sheet
As of September 30, 2005

<u>Assets</u>	\$	\$	\$
Plant In Service			
Water	426,655		
Sewer	4,887,525		
Total		5,314,180	
Accumulated Depreciation - Water	(51,379)		
Accumulated Depreciation - Sewer	(531,037)		
Total		(582,416)	
Net Utility Plant			4,731,764
Plant Acquisition Adjustment - Water	0		
Plant Acquisition Adjustment - Sewer	0		
Total			0
Construction Work In Process - Water	0		
Construction Work In Process - Sewer	167,122		
Total			167,122
Current Assets			
Cash	5		
Accounts Receivable - Net	151,066		
Other Current Assets	0		
Total			151,071
Deferred Charges			36,778
Total Assets			<u>5,086,735</u>
<u>Liabilities and Other Credits</u>		\$	\$
Capital Stock and Retained Earnings			
Common Stock and Paid In Capital	670,435		
Retained Earnings	(1,050,772)		
Total			(380,337)
Current and Accrued Liabilities			
Accounts Payable - Trade	13,105		
Taxes Accrued	41,740		
Customer Deposits	34,743		
Customer Deposits - Interest	29,141		
A/P - Associated Companies	2,366,691		
Total			2,485,420
Advances In Aid of Construction			
Water	0		
Sewer	0		
Total			0
Contributions In Aid of Construction			
Water	206,977		
Sewer	2,392,722		
Total			2,599,699
Accumulated Deferred Income Tax			
Unamortized ITC	0		
Deferred Tax - Federal	383,591		
Deferred Tax - State	(1,638)		
Total			381,953
Total Liabilities and Other Credits			<u>5,086,735</u>